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Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 SP-02 USIA-15 AID-05
EB-07 NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /133 W
----------291758Z 023037 /43
O R 291720Z DEC 76 ZFF (TRSY)
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 9066
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
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AMCONSUL BELFAST
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USDEL MTN GENEVA
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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. L1652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD DECEMBER 23-29

1. A CHRISTMAS BONUS. DECEMBER INDUSTRIAL PRODUCTION
FIGURES ARE LIKELY TO REFLECT CHANGED HOLIDAY PATTERNS FO
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THE SECOND YEAR IN SUCCESSION. WITH ONLY THREE WORKING
DAYS SCHEDULED BETWEEN DECEMBER 25 AND JANUARY 4, MANY
FIRMS ARE REMAINING CLOSED FOR THE ENTIRE PERIOD, RATHER
THAN FACE HIGH LEVELS OF ABSENTEEISM. THE FINANCIAL TIME
ESTIMATES THAT AS MUCH AS 50 PERCENT OF THE LABOR FORCE

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MAY BE AFFECTED.

2. BANKING FIGURES. THE NOVEMBER FIGURES ON BANK ADVANCES ALSO CONTAIN A QUARTERLY BREAKDOWN BY CLASS OF BORROWERS. THEY SHOW THAT TOTAL ADVANCES ROSE BY 16.3 PERCENT IN THE 12 MONTHS TO NOVEMBER 17 TO 34.937 BILLION POUNDS. THE STERLING COMPONENT ROSE 21.8 PERCENT TO 24.849 BILLION POUNDS WHILE THE FOREIGN CURRENCY COMPONENT ROSE BY 29.3 PERCENT REACHING 10.088 BILLION POUNDS.

AFTER SIX MONTHS OF SLUGGISH MOVEMENT, BANK ADVANCES TO MANUFACTURING INDUSTRY INCREASED DRAMATICALLY BETWEEN MAY AND NOVEMBER. EXPRESSED AT ANNUAL RATES, THE QUARTER-TO-QUARTER CHANGES (MAY-AUG., AUG-NOV.) WERE 34.8 AND 43.0 PERCENT RESPECTIVELY. THE HIGHEST RATES OF BORROWING WERE IN METALS, VEHICLES, CHEMICALS AND "FOOD, DRINK AND TOBACCO". IN MANUFACTURING, FOREIGN CURRENCY ADVANCES ROSE MORE SLOWLY THAN OVERALL ADVANCES INDICATING THAT STERLING ADVANCES ACCOUNTED FOR A DISPROPORTIONATE SHARE OF THE TOTAL.

THERE WAS A SIMILAR PATTERN AMONG ADVANCES TO THE SERVICES SECTOR EXCEPT THAT THE FOREIGN CURRENCY COMPONENT ROSE FASTER THAN THE OVERALL TOTAL. THIS WAS ALSO THE CASE IN ADVANCES TO FINANCIAL INTERMEDIARIES (FINANCE HOUSES, PROPERTY COMPANIES, ETC.). HOWEVER, THE OVERALL INCREASE IN ADVANCES TO FINANCIAL INTERMEDIARIES FOR THE YEAR TO NOVEMBER WAS 7.1 PERCENT COMPARED WITH 23.1 PERCENT FOR SERVICES.

THE PATTERN OF ADVANCES REFLECTS THE SHARP DROP IN STERLING, THE SLUGGISHNESS IN INDUSTRIAL OUTPUT DURING 1976, AND LARGE PUBLIC SECTOR BORROWING WHICH PRODUCED AN INCREASE OF 28.8 PERCENT IN ADVANCES TO THE NATIONAL GOV-
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ERNMENT AND PUBLIC UTILITIES.

3. THE MONEY MARKET IN STERLING WAS FACED WITH A SEVERE SHORTAGE OF FUNDS LAST WEEK. THE NEED TO REPAY THE EXTRAORDINARILY LARGE ASSISTANCE OF THE BANK OF ENGLAND DURING THE PRECEDING DAYS, COMBINED WITH THE REQUIREMENT TO SETTLE THE RECENT LARGE GILT SALES, DROVE THE OVERNIGHT INTERBANK STERLING RATE TO 500 PERCENT ON WEDNESDAY AFTERNOON, DECEMBER 22. HIGH, THOUGH NOT NEARLY SO IMPOSING, OVERNIGHT RATES CONTINUED INTO THURSDAY WHERE THEY WERE MAINTAINED AT 25 TO 35 PERCENT LEVELS. THE BANK OF ENGLAND CONTINUED TO PROVIDE ASSISTANCE, LENDING ON THURSDAY, FOR THE THIRD DAY IN A ROW, TO THE DISCOUNT HOUSES FOR EIGHT DAYS AT THE MINIMUM LENDING RATE (MLR). HOWEVER, MARKET SOURCES REPORTED THAT THE SUPPORT WAS LESS THAN DUR
ING THE PRECEDING WEEK AUGMENTING MARKET PRESSURES.

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4. THE GILT MARKET CONTINUED TO BE STRONG ON THURSDAY AND FRIDAY, WITH PARTICULAR ATTENTION BEING PAID TO THE SHORT TAP STOCK, THE EXCHEQUER L3 PERCENT L980, AS THE GOVERNMENT SOLD AROUND 100 MILLION POUNDS OF THIS GILT ON THURS-

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SIL-01 L-03 H-02 PA-02 PRS-01 /133 W
----------291758Z 023135 /43
O R 291720Z DEC 76 ZFF (TRSY)
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 9067
INFO AMEMBASSY BONN
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DAY AND FRIDAY. APPLICATIONS FOR THE PROSPECTIVE LONG TAP THE 15-1/4 PERCENT 1996A, WILL BE MADE ON FRIDAY, DECEMBER 31, BUT ITS REDEMPTION YIELD IS CURRENTLY SLIGHTLYLOW RELATIVE TO COMPARABLE OUTSTANDING ISSUES SO THE MARKET EXPECTS VERY FEW APPLICATIONS.

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5. STERLING TRADED IN EXTREMELY THIN MARKETS THIS WEEK.
THE INCREASED OVERNIGHT RATES ON INTERBANK STERLING LATE
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WEDNESDAY AND THURSDAY GAVE SUBSTANTIAL SUPPORT TO STER
LING ON THOSE DAYS, AND THE POUND HAD INCREASED BY 0.55
CENTS BY WEDNESDAY'S CLOSE TO $1.6860. IN THE HALF-DAY
THAT THE MARKET WAS OPEN ON FRIDAY, THE POUND SHOWED
FURTHER GAINS IN EXTREMELY LIGHT TRADING, AND AFTER AN AC-
TIVE TUESDAY IN NEW YORK WHICH PUSHED THE POUND OVER$1.70
LONDON TRADING SAW CONTINUED SUPPORT FOR THE POUND AT OVER
$1.70 ON WEDNESDAY

6. THE FINANCIAL TIMES ECONOMIC CORRESPONDENT, PETER
RIDDELL, SPECULATES THAT INDUSTRY'S COST OF BORROWING WILL
REMAIN HIGH. HE NOTES THAT THE RECENT DECLINES IN THE MLR
HAVE DONE MORE TO CLOSE THE ARBITRAGE GAP THAN TO EFFEC-
TIVELY FORCE SHORT-TERM RATES DOWN. (THIS ARBITRAGE GAP
ALLOWS BORROWING FROM BANKS TO PROFITABLY BE PLACED IN THE
MONEY MARKET, AND IS BELIEVED TO BE RESPONSIBLE FOR SOME
OF THE LARGE INCREASES RECORDED IN M3 THIS FALL.) THE
SLOW DECLINE IN MLR, FROM ITS 15 PERCENT LEVEL OF OCTOBER
AND NOVEMBER TO THIS WEEK'S 14-1/4 PERCENT, IS NOT LIKELY
TO ACCELERATE UNTIL THE ISSUE OF STERLING BALANCES IS RE-
SOLVED. NEVERTHELESS, THE BUILDING SOCIETIES, WHICH HAVE
BEEN DISCUSSING INCREASES IN DEPOSIT AND MORTGAGE RATES IN
RESPONSE TO THE GENERAL INCREASE IN INTEREST RATES, WILL
POSTPONE THEIR DECISION ON THESE INCREASES UNTIL EARLY
NEXT YEAR TO SEE HOW RAPIDLY RATES WILL FALL.

7. EXCHANGE RATE AND GOLD

DATE	EXCHANGE RATE ($)	EFFECTIVE DEPRECIATION (PERCENT)	GOLD ($)
L2/22	1.6860	44.6	133-5/8
12/23	1.6855	44.6	132-5/8
12/24 1)	1.6905	44.4	133-1/8
12/27 2)			
12/28 2)			

CHANGE 12/21-12/24 UP 0.0100 NARROWED 0.3 DOWN 1/2
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8. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
12/22	1.70	4.32	7.72

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12/23 1.80 4.45 7.85
12/24 1) 1.75 4.45 7.80
12/27 2)
12/28 2)
CHANGE 12/21-12/24 WIDEN 0.20 WIDEN 0.37 WIDEN 0.30
(ALL FIGURES IN CENTS)

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----------291757Z 023032 /43
O R 291720Z DEC 76 ZFF (TRSY)
FM AMEMBASSY LONDON
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INFO AMEMBASSY BONN
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9. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
12/22	4-3/8	5	5-1/4
12/23	5	5-1/8	5-3/8

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12/24 1) 5 5-1/8 5-3/8
12/27 2)
12/28 2)
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CHANGE 12/21-12/24 UP 1/8 UP 1/8 UP 1/8

10. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST/
RATE DIFFERENTIAL
12/22 9-1/2
12/23 9-3/4
12/24 1) 9-1/16
12/27 2)
12/28 2)
CHANGE L2/21-12/24 NARROWED 9/32

11. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
12/22	14-29/32	14-1/8	13-3/8
12/23	15-1/4	14-13/32	13-3/4
12/24 1)	15-1/8	14-5/8	13-23/32
12/27 2)			
12/28 2)			

CHANGE 12/21-12/24 UP 11/32 UP 17/32 UP 9/16
1) LONDON MARKETS OPEN FOR ONE-HALF DAY.
2) LONDON MARKETS CLOSED ALL DAY.

12. THE MINIMUM LENDING RATE FELL BY 1/4 PERCENT AT FRIDAY'S TREASURY BILL AUCTION. THE TREASURY BILL RATE FELL BY 0.1468 PERCENT TO 13.6100 PERCENT, AS BIDS OF 1242.73 MILLION POUNDS WERE RECEIVED FOR THE 300 MILLION POUNDS TENDERED. THIS WEEK 300 MILLION POUNDS OF TREASURY BILLS WILL BE TENDERED, AND 400 MILLION POUNDS WILL MATURE.

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*** Current Handling Restrictions *** n/a
*** Current Classification *** UNCLASSIFIED

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS, REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON20762
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: D760475-0261
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761285/aaaagktl.tel
Line Count: 320
Locator: TEXT ON MICROFILM, TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUN 2004 by chengls>; APPROVED <27 DEC 2004 by vogelfj>
Review Markings:

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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 970930
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD DECEMBER 23-29
TAGS: ECON, EFIN, UK
To: STATE
TRSY
MULTIPLE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006